



**Report prepared by the Nomination and Remuneration Committee of Distribuidora Internacional de Alimentación, S.A. in relation to the proposed amendment of the Director's Remuneration Policy for the period 2015-2018, to be submitted under item Fourth on the agenda to the Annual Shareholders' Meeting to be held in Madrid, on April 19, 2018, on first call, or April 20, 2018, on second call.**

## **1. Applicable legislation**

In relation to approval of the directors' remuneration policy, a transitional provision with the following wording was introduced into the Capital Companies Law ("LSC"):

"2. *Article 529 novodecies of the Revised Capital Companies Law shall enter into force as from January 1, 2015 and shall apply to listed public limited companies as follows:*

- a) *In the event that the first annual shareholders' meeting held on or after January 1, 2015 approves the remuneration report on a consultative basis, it will be deemed that the company's remuneration policy contained therein has also been approved for the purposes of the provisions of article 529 novodecies, and such article shall apply to the company from that moment onwards.*
- b) *If said annual shareholders' meeting does not approve the directors' remuneration report on a consultative basis, the directors' remuneration policy must be submitted for binding approval by the shareholders' meeting no later than the end of the following fiscal year, according to the provisions of article 529 novodecies and with effect from the following fiscal year."*

In accordance with this transitional provision, the directors' remuneration policy would also be deemed approved in 2015 if the Annual Shareholders' Meeting of DIA held in that year approved the annual directors' remuneration report (the "ADRR") on a consultative basis.

Accordingly, if the consultative vote on the ADRR at the 2015 Annual Shareholders' Meeting was favorable, the provisions of article 529 novodecies would apply, with the consequences of such approval being as follows:

- The directors' remuneration policy described in the ADRR approved on a consultative basis by the 2015 Annual Shareholders' Meeting will remain in force for the three years following the year in which it was approved by the



Shareholders' Meeting (that is, up to and including 2018).

- Once three years have elapsed since the approval of the ADRR by the 2015 Annual Shareholders' Meeting (that is, in 2018), the remuneration policy must be submitted to a binding vote by the Shareholders' Meeting, subject to a specific report by the N&R Committee. This remuneration policy will remain in force for the three years following its approval (that is, 2019, 2020 and 2021).
- If any amendment is made to the remuneration policy that is not reflected in the ADRR approved by the 2015 Annual Shareholders' Meeting, new approval will be required by the Shareholders' Meeting.

Pursuant to the aforementioned transitional provision of the LSC, on February 20, 2015, the Board of Directors of DIA resolved:

- (i) to approve the directors' remuneration policy of the Company for the period 2015-2018;
- (ii) to apply the provisions of the aforementioned transitional provision of the LSC and submit the 2014 ADRR to a consultative vote at the Shareholders' Meeting held on April 25, 2015. Said ADRR contained the principles and fundamentals of the current remuneration policy, meaning that its approval by the Shareholders' Meeting also entailed the approval of the directors' remuneration policy for 2015 and for the following three years.

Pursuant to the aforementioned transitional provision, at the Shareholders' Meeting to be held on April 19, 2018, on first call, or April 20, 2018, on second call, a new directors' remuneration policy applicable to 2019, 2020 and 2021 is submitted for approval.



For the reasons explained below, the Nomination and Remuneration Committee also considers it appropriate to review for 2018 (a) the maximum aggregate amount of the fixed remuneration to be paid overall to the directors for the office of director, and (b) the fixed component of the remuneration of the CEO of the Company. Such proposal is made in line with the principles leading to the new remuneration policy for the period 2019-2021, the approval of which is also submitted to the aforementioned Shareholders' Meeting.

In light of the above, set out below is the justification for the proposed specific amendment to the directors' remuneration policy for the period 2015-2018.

## **2. Justification for the proposed amendment to the directors' remuneration policy for the period 2015-2018**

Proposal to increase the maximum aggregate amount of the annual remuneration to be paid to the directors overall for the office of director.

Directors' remuneration for the office of director consists of an amount (paid partly in cash and partly in shares), established according to their office and responsibilities (with greater weighting being given to the functions of the Board Chairman, and the Chairmen and members of the Board Committees), and fees for effective attendance at Board and Committee meetings.

The maximum remuneration to be paid to the directors overall for the office of director may not exceed the maximum amount approved by the Shareholders' Meeting, and the Board of Directors may establish a lower amount.

The upper limit on the annual remuneration to be paid to the directors overall for the office of director will be that approved by the Shareholders' Meeting from time to time.

The Nomination and Remuneration Committee proposes that the new upper limit on annual remuneration to be paid to the directors overall for the office of director be set at 2,000,000 euros.



In the opinion of the Nomination and Remuneration Committee, the 500,000 euros increase in the aforementioned upper limit (the previous upper limit was set at 1,500,000 in 2012) is justified, in addition to the time elapsed since the limit was last set, for the following reasons: (a) the potential increase in the number of Board members (set at ten since DIA went public in 2011, but which may be increased to fifteen (15) in line with the current bylaws) since at the time of drawing up this proposal, proposals are also made to the Shareholders' Meeting to increase the number of Board members to twelve and to appoint two new directors; (b) the announced increase in the number of Board Committees, due to the creation of a new Strategy Committee, which has raised the number of committees to three; (c) the increase in the average number of members of those Committees, due to their growing activity and the progressive assumption of more complex functions; and (d) the increase in the average number of annual meetings of the Board and the different Committees in the course of the year.

In any event, it should be noted that, as recorded in the 2017 Annual Remuneration Report, the Board of Directors of DIA resolved that this increase in the maximum amount of overall directors' remuneration for the office of director will not entail any increase in 2018 of the individual remuneration by office and responsibilities of the members of the Board of Directors of DIA, the items and distribution of which will remain unchanged in 2018.

The distribution of remuneration among the directors for the office of director and for offices and responsibilities is a power attributed to the Board of Directors and such distribution has remained unchanged since 2013 (with the sole exception of the increase of 5,000 euros/year in the fixed remuneration payable to the chairman of the Board of Directors since 2015).

The indicated maximum aggregate amount of 2,000,000 euros will also be the upper limit applicable in 2019 and the following years, in accordance with the new remuneration policy envisaged for 2019-2021 (submitted to the Shareholders' Meeting for approval), until such time as the Shareholders' Meeting approves a new amount, as the case may be.



Proposal to review the fixed annual remuneration of the CEO

The Nomination and Remuneration Committee also considers it appropriate to establish rules for the review of the fixed annual remuneration of the CEO of the Company, which remuneration has remained unchanged since 2015 (inclusive). These rules are also included for the term of the new remuneration policy for the period 2019-2021 (submitted to the Shareholders' Meeting for approval), with the Nominations and Remuneration Committee deeming it advisable to include them with effect from 2018.

The rules are based on the year-on-year positive variation in the CPI (Consumer Price Index, national general index published by the National Statistics Institute) between December 2016 and December 2017, and successively in subsequent years by applying the CPI for the previous period.

\* \* \*

These are the only two amendments to the current directors' remuneration policy. In both cases, the amendments are proposed with respect to 2018 as a whole, to take effect from January 1, 2018. There are no proposed amendments other than the above in relation to the directors' remuneration policy for the period 2015-2018.

The following are attached as Exhibits: (a) the proposed amendment of the directors' remuneration policy for the period 2015-2018, to be submitted to the Shareholders' Meeting for approval; and (b) a consolidated version of the directors' remuneration policy for the period 2015-2018, following the inclusion of the above amendments.

In light of all of the above, the Nomination and Remuneration Committee concludes that the amendment to the directors' remuneration policy, on the terms detailed in the body of this report which, at the proposal of this Committee, will be submitted by the Board of Directors to the Annual Shareholders' Meeting, complies with the legislation in force and is aligned with the principles and fundamentals of the current directors' remuneration policy of DIA.

This document constitutes the statutory reasoned explanatory report on the proposed amendment to the directors' remuneration policy detailed below, to be submitted by the Board of Directors to the Annual Shareholders' Meeting for approval.

**EXHIBIT A**  
**PROPOSED AMENDMENT TO THE DIRECTORS' REMUNERATION POLICY**  
**FOR THE PERIOD 2015-2018**

To approve, in accordance with the provisions of article 529 *novodecies* of the Capital Companies Law, the amendment of the directors' remuneration policy for the period 2015-2018, which was originally approved by the 2015 Shareholders' Meeting on April 24, 2015, on the terms set out below, the wording of which has been made available to the shareholders (as part of the relevant favorable report by the Nomination and Remuneration Committee) together with the rest of the documentation for the Shareholders' Meeting since the date of its call:

1. A proposal is made to replace the third paragraph of section 4 on "Directors' remuneration system for their services as such" which will hereafter be worded as set out below. The approval of this amendment entails setting a new maximum amount for the annual remuneration of all the Directors for their position as such, in accordance with the provisions of articles 217 and 529 novodecies of the Capital Companies Law:

*"For fiscal years 2015, 2016 and 2017, the upper limit on the remuneration payable overall to the directors for their position as such amounts to 1,500,000 euros. For fiscal year 2018, the upper limit on the remuneration payable overall to the directors for their position as such amounts to 2,000,000 euros."*

2. A proposal is made to replace the first paragraph of section 5.1 "Fixed Remuneration" under section 5 "Remuneration system for executive directors" , which will hereafter be worded as follows:

*"Its aim is to reward the performance of executive duties. For the Company's only executive director, his fixed annual remuneration has been set at 600,000 euros. For 2018, the fixed remuneration shall be the result of applying rules for review to such amount, based on the year-on-year positive variation in the CPI (Consumer Price Index, national general index published by the National Statistics Institute) for the period December 2016-December 2017."*

**Annex B**

**Policy on Directors' Remuneration of Distribuidora Internacional  
de Alimentación, S.A.  
(2015-2018)**

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**Version consolidated  
April, 2018**

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## **1. Introduction: Legislative framework**

On December 6, 2014 Law 31/2014, of December, 2014, amending the Spanish Companies Act to enhance corporate governance (“**SCA**”) was published in the Official State Gazette. The amended SCA stipulates, inter alia, the need for listed corporate enterprises to have a remuneration policy for their directors and to submit such policy to their approval by way of a binding vote of the shareholders’ meeting of the enterprise, at least every three years.

With a view to complying with the provisions of the SCA, the board of DISTRIBUIDORA INTERNACIONAL DE ALIMENTACIÓN, S.A. (“**DIA**” or the “**Company**”), at the proposal of the Nomination and Remuneration Committee (“**NRC**”), approved the current remuneration policy on February 20, 2015, having regard to the statutory changes included in the aforesaid SCA, thus complying with the provisions on directors’ remuneration stipulated in the SCA. The current policy was also approved having regard to the Company’s internal rules and regulations (bylaws and board regulations) in force on the date of its approval. If the Company’s internal rules and regulations were amended, the current policy would be modified accordingly. After the amendments of the bylaws and board of directors’ Regulations in 2015, this policy has been consolidated with some modifications and other minor technical adjustments, and approved by the board of directors at its meeting on February 23, 2016.

The following is an analysis of the main aspects included by the SCA in connection with the obligations to approve the remuneration policy mentioned above.

## **1.1 Obligation to approve the directors' remuneration policy**

Article 529 *septdecies* of the SCA stipulates the obligation for listed companies to have a remuneration policy for their directors detailing not only the various remuneration items that directors are entitled to receive, as directors, but also the characteristics and cornerstones of the remuneration of directors who discharge executive functions at the company.

This policy should be approved at listed companies by the shareholders' meeting. Article 529 *novodecies*, subarticle 1, of the SCA introduces the obligation for listed companies to have the shareholders' meeting adopt a binding resolution on their directors' remuneration policy at least once every three years, as a separate item on the agenda:

*"1. The directors' remuneration policy shall be brought into line, as necessary, with the remuneration policy provided for in the bylaws and shall be approved by the shareholders' meeting at least once every three years as a separate item on the agenda."*

Article 529 *novodecies*, subarticle 3, provides that:

*"3. The directors' remuneration policy thus approved shall remain in force for three years after the year in which it was approved by the shareholders' meeting. Any amendment or replacement of the policy during that time shall require prior approval by the shareholders' meeting in accordance with the procedure established for its approval."*

In connection with the procedure for approving the policy, Article 529 *novodecies*, subarticle 2, provides that the proposal for a remuneration policy must be reasoned and must be accompanied by a report from the NRC:

*"2. The proposal for the board's remuneration policy shall be reasoned and must be accompanied by a specific report from the nominations and remuneration committee. Both documents shall be made available to shareholders on the company's website as soon as the shareholders' meeting has been called, and shareholders may also ask to have it delivered or sent to them free of charge. The call notice of the shareholders' meeting shall mention this right."*

## 1.2 Transitional regime

In connection with the approval of the directors' remuneration policy, the SCA introduced a transitional provision with the following wording:

*“2. Article 529 novodecies of the Revised Corporate Enterprises Law shall come into force on January 1, 2015 and shall apply to listed Spanish corporations in the following manner:*

- a) Where the first annual shareholders' meeting held after January 1, 2015 approves, on a consultative basis, the report on directors' remuneration, the company's remuneration policy set forth therein shall also be deemed to have been approved for the purposes of article 529 novodecies, and such article shall apply to the company thereafter.*
- b) Where the aforesaid annual shareholders' meeting does not approve, on a consultative basis, the report on directors' remuneration, the director's remuneration policy must be submitted to the binding approval of the shareholders' meeting by the end of the following year, at the latest, pursuant to article 529 novodecies and with effects from the following year.”*

According to this transitional regime, the directors' remuneration policy can be deemed to have been approved in 2015 if the shareholders' meeting of DIA to be held in 2015 approves the annual directors' remuneration report (“**ADRR**”) with a consultative vote.

Thus, if the shareholders vote in favor of the ADRR in the consultative vote at the 2015 shareholders' meeting, article 529 *novodecies* will be applied and the consequences thereof will be as follows:

- The directors' remuneration policy described in the ADRR approved in a consultative vote at the 2015 shareholders' meeting will remain in force for three years after the year in which it was approved by the shareholders' meeting (i.e., through 2018).

- Three years after the approval of the ADRR by the 2015 shareholders' meeting (i.e., in 2018), the remuneration policy must again be submitted to a binding vote at the shareholders' meeting following a specific report from the NRC. This remuneration policy will remain in force for three years after its approval (i.e., 2019, 2020 and 2021).
- If any amendment not reflected in the ADRR approved by the 2015 shareholders' meeting is made to the remuneration policy, a new approval by the shareholders' meeting will be required.

Pursuant to the transitional provision in the SCA, the board of DIA resolved on February 20, 2015:

- (i) to approve the Company's current directors' remuneration policy;
- (ii) to avail itself of the aforesaid transitional provision in the SCA, and submit the 2014 ADRR to a consultative vote at the shareholders' meeting of April 25, 2015. The 2014 ADRR contained the principles and cornerstones of the current remuneration policy and, accordingly, its approval by the Company's shareholders' meeting also entailed the approval of the directors' remuneration policy for 2015 and for the following three years.

## **2. DIA's internal rules and regulations**

The remuneration of the directors of DIA is determined pursuant to the legislation governing corporate enterprises, to the Company's bylaws and board regulations and to the resolutions adopted by the shareholders' meeting.

The SCA stipulates that, among other non-delegable powers, the board of a listed company has the power to make decisions relating to directors' remuneration, in line with the bylaws and the remuneration policy approved by the shareholders' meeting.

## 2.1 Functions of the board and of DIA's NRC

Pursuant to article 31 of the bylaws ("Authority of the Board"):

- "(...)*
4. *In any case, the board shall hold, on a non-delegable basis, all powers reserved to it directly, by law, as well as all others necessary for the diligent discharge of the general function of supervision. In particular, without limitation, the following powers are non-delegable powers of the board:*
- (...)*
- (r) the decisions relating to the remuneration of directors, within the framework of the bylaws and, as the case may be, of the remuneration policy approved by the shareholders' meeting (...)."*

In connection with the powers of the NRC, pursuant to article 42 of the bylaws of DIA ("The Nominations and Remuneration Committee"):

- "(...)*
3. *The following powers shall fall to the nominations and remuneration committee in all cases, notwithstanding any other tasks that may be assigned to it by the board at any given time:*
- (...)*
- (g) to propose to the board (i) the policy on the remuneration of directors and general managers or of those performing senior management functions under the direct supervision of the board, of committees or of managing directors, (ii) the individual remuneration of executive directors, as well as the other terms of the contracts, ensuring that they are observed; and (iii) the basic terms of the contracts of senior managers;*
- (h) to ensure compliance with the remuneration policy established by the Company;*
- (...)"*

Article 5 of the board regulations of DIA stipulates that the board shall have the non-delegable power to establish the remuneration policy of the leadership team and to set the remuneration of directors for their executive functions. Pursuant to article 39 of the Regulations of the board of directors of DIA, on the NRC:

***“Article 39. THE NOMINATION AND REMUNERATION COMMITTEE***

*(...)*

4. *The following powers shall fall to the nominations and remuneration committee in all cases, notwithstanding any other tasks that may be assigned to it by the board at any given time:*

*(...)*

- (vii) proposing to the board (i) the policy on the remuneration of directors and general managers or of those performing senior management functions under the direct supervision of the board, of committees or of managing directors (ii) the individual remuneration of executive directors, as well as the other terms of the contracts; and (iii) the basic terms of the contracts of senior managers;*
- (viii) analyzing, formulating and periodically reviewing the remuneration policy for executive directors and for the management team, including share-based remuneration schemes and their application, and to ensure that such remuneration is proportional to that paid to other directors and members of the management team and to other members of the Company’s personnel;*
- (ix) overseeing compliance with the remuneration policy established by the Company;*
- (x) examining and organizing the succession plan for the president of the board and for the chief executive officer of the Company and, if applicable, suggesting proposals to the board of directors to ensure a smooth and organised transition.*
- (xi) generally supervising compliance with the corporate governance rules applicable to the Company, including periodically evaluating its corporate governance system in order for it to fulfill its aim of promoting social interest and taking into account, as appropriate, the legitimate interests of the other interest groups;*
- (xii) reporting to the shareholders of the discharge of their functions, assisting the shareholders’ meeting in this connection; and*
- (xiii) assisting the board of directors in its preparation of the report on the directors’ remuneration policy and to forward to the board any other reports on remuneration stipulated in these regulations, verifying the information on the remuneration of directors and senior managers*

*contained in the different corporate documents, including the annual report on directors' remuneration.*

*(...).*”

Accordingly, DIA's bylaws and board regulations regulate the specific functions of the Company's board and the NRC in connection with directors' remuneration.

With respect to the principles for such remuneration, the following is stipulated in the bylaws and in the board regulations.

## **2.2 DIA's internal rules and regulations**

Both the bylaws and the board regulations of DIA stipulate the principles and cornerstones on which the directors' remuneration policy of the Company is based. In connection with directors' remuneration, article 39 of the bylaws of DIA provides as follows:

### ***“Article 39.- Directors' Remuneration***

- 1. The members of the board of directors shall receive, for their status as such, the remuneration established in the bylaws, the maximum annual amount of which for the board members as a whole will be determined by the shareholders' meeting. This remuneration shall consist of a fixed monthly emolument and of attendance fees for meetings of the board and of its committees. The maximum amount of remuneration payable by the Company to its directors for such items shall be stipulated by the shareholders' meeting and shall remain in force until a resolution is adopted to change it.*
- 2. Each year the board, within the limits set by the shareholders' meeting, shall stipulate the specific amount receivable by each director, and may scale the amount receivable by each one taking into account the functions and responsibilities attributed to each director, the membership on board committees and other objective circumstances which the board of directors deems relevant.*

3. *The executive directors shall receive, for the performance of their executive functions delegated or entrusted to them on any other basis, the remuneration which the board itself so determines. This remuneration shall be adapted to the directors' remuneration policy approved by the shareholders' meeting and shall be reflected in a contract to be signed between the director and the Company.*

*For illustration purposes and without limitations, the remuneration established in this section and subject to the remuneration policy mentioned previously, may consist of fixed salaries, variable remuneration (according to the achievement of business and corporate objectives, and/or personal performance objectives), severance for termination of the director for reasons other than the breach of his duties, pensions, insurance, welfare systems, deferred remuneration items and remuneration formulae consisting of the award of shares, stock option rights and which are referenced to the value of the shares, established for the members of the board of directors that fulfil executive functions.*

4. *In the context of the remuneration policy, executive directors may be compensated with the award of shares in the Company or in another company in the group to which the former belongs, of stock options or of instruments or other remuneration items referenced to the market price of the shares.*

*Other directors may be compensated with the award of shares, provided that they are obliged to keep the shares until they cease to be directors, although this rule will not apply to the shares which the director needs to transfer, as the case may be, in order to pay the costs related to their acquisition.*

*Where such remuneration refers to Company shares or to instruments linked to the market price of the shares, it must be approved in a resolution by the shareholders' meeting. The resolution shall state, as the case may be, the number of shares to be awarded, the exercise price or the system for calculating the exercise price of the stock options the share value taken as a reference and the duration of the plan.*

5. *Directors' remuneration shall be reported in the notes to financial statements for each director individually."*



The DIA's board Regulations stipulate the following additional provisions on directors' remuneration:

*“Article 33.- Directors' Remuneration*

*“(…)*

7. *Directors' remuneration may also comprise variable remuneration linked to the performance of the Company or to personal performance.*

*The fixed remuneration must be sufficient for the Company to retain the variable remuneration if the director fails to comply with the stipulated performance criteria.*

*Any variable remuneration must be consistent with the professional performance of its beneficiaries and cannot simply derive from the general performance of the markets or of the industry in which the Company operates or of other similar circumstances. In particular, variable remuneration items must:*

- (a) be linked to predetermined and measurable performance criteria and those criteria must take into account the risk assumed to obtain income;*
- (b) promote the sustainability of the Company and include non-financial criteria, , which are suitable to the creation of long-term value, such as compliance with rules and procedures at the Company and with its policies for risk control and management;*
- (c) be designed on the basis of a balance between the achievement of short, medium and long-term objectives which permit remunerating the continued performance during a sufficient period of time to assess the director's contribution to the sustainable creation of value, so that the elements for measuring this performance do not center solely on isolated, occasional or extraordinary circumstances;*
- (d) a relevant percentage of the variable remuneration will be linked to the award of shares in the Company, of options on them or of instruments referenced to their market price.*
- (e) when paid, a significant portion must be deferred for a sufficient time period in order to ensure that the stipulated performance criteria have been complied with;*

- (f) *the portion of remuneration subject to deferred payment shall be determined having regard to the relative weight of the variable remuneration when compared with the fixed remuneration; and*
  - (g) *contractual agreements executed with directors shall include a clause that enables the Company to demand the return of the variable remuneration items where their payment was not in line with performance criteria or where they were paid having regard to data clearly proven to be inaccurate thereafter.*
8. *Payments for contract termination shall not exceed a stipulated amount equal to two (2) years of the total annual remuneration and shall not be paid if the contract is terminated due to unsuitable performance or until the Company has been able to verify that the director has met the performance criteria established previously.*
9. *With respect to nonexecutive directors, the board shall take all measures within its power to ensure that their remuneration, including any received as committee members, is consistent with the following criteria:*
- (a) *the nonexecutive director must be compensated according to his actual dedication, skills and responsibilities;*
  - (b) *the amount of the nonexecutive director's remuneration must be calculated so as to offer incentives for dedication, but without constituting an obstacle to his independence of opinion; and*
  - (c) *the nonexecutive director cannot be compensated with share-based remuneration, stock options or instruments linked to the share price, or with employee welfare systems financed by the Company for cases of resignation, death or any other. The foregoing limitation shall not apply to share-based remuneration where the award is conditional on the external directors keeping the shares until they are removed from office as directors.*
10. *Directors shall be entitled to the payment of duly supported travel expenses incurred to attend meetings of the board or of its committees.*
11. *The Company may take out civil liability insurance for its directors.*
- (...)”.*

According to all of the foregoing, the following is a description of the principles and cornerstones of DIA's directors' remuneration policy.

### **3. General principles governing the remuneration policy for the directors of DIA**

#### **3.1 Principles and cornerstones**

When defining the directors' remuneration policy, DIA's board decided that the policy must be governed by the following principles:

- Prudence: the board will endeavor to ensure that remuneration will be moderate and consistent with the trends and references concerning remuneration implemented in the market at companies with a similar size and activity, to align remuneration with the best market practices.
- Commitment: the aim of the remuneration policy will be to reward quality, dedication, responsibility, knowledge of the business and commitment to the Company and to the people who are in key positions and lead the organization.
- Alignment with earnings: the policy is based on the need for remuneration to be linked to the Company's earnings, such that the relative proportion of variable remuneration will be suitable to reward efficiently the achievement of targets and the contribution of value to the Company.
- External and internal equity. The external competitive environment and internal equity will be taken into account to set remuneration.

The aim behind the general principles and cornerstones of the remuneration system established for the directors is for their remuneration to continue to be reasonably proportionate to the Company's importance, its economic position and the market standards of comparable companies. The established remuneration system, especially in the case of the executive directors, is geared towards encouraging long-term profitability and sustainability for the Company and the necessary safeguards have been built in to prevent the taking of excessive risks and the rewarding of unfavorable results.

The remuneration system establishes a distinction between the directors in their positions and those carrying on executive functions at the Company.

### **3.2 Characteristics of the directors' remuneration policy for their services as such**

The principles described in point 3.1 above governing the remuneration policy for DIA's directors for their services are implemented with the following characteristics:

- It is transparent in the information on directors' remuneration.
- It provides an incentive by rewarding their dedication, skills and responsibility, without constituting an obstacle to their duty of loyalty.
- Its principal component is an emolument for belonging to the board and, if applicable, to the committees and subcommittees, supplemented by some per diems for attending board and committee meetings, which will be paid fully in cash.
- The fixed emolument will depend on the functions or positions held on the board and on its subcommittees.
- A portion of the remuneration is awarded in shares, which must be held until they are removed from office as directors.
- Directors will be paid for their expenses in relation to trips, travel and others incurred to attend the Company's meetings or to discharge their duties.

The objective of the parameters used to determine the various components of the directors' remuneration package, in the case of external directors is to compensate the directors according to their professional worth and dedication to office and the responsibility they take on, while not allowing the remuneration they receive to affect their objectivity in acting in the company's interests.

### **3.3 Characteristics of the executive directors' remuneration policy**

The remuneration system for directors performing executive duties at the Company is based on the remuneration policy for DIA's senior executives. The general principles and cornerstones of that system are as follows:

- Remuneration must be granted for the performance of executive duties according to the policy established for the remuneration of senior executives and according to the terms set out in their respective contracts.
- It must present a balanced and efficient relationship between the fixed and variable components.
- The variable remuneration of executive directors must be designed as a medium- and long-term vision driving the director's actions in strategic terms, as well as a means of achieving results in the short term.
- The remuneration system must be compatible with proper and efficient risk management, and with the Company's long-term business strategy, and interests, and it must be ensured that their variable remuneration cannot jeopardize the Company's ability to maintain its solvency and financial position.
- It must draw on market practices, and be positioned on the market in line with the Company's strategic plans, so as to result in providing an efficient tool to attract and retain the best professionals.

The remuneration policy is therefore geared towards creating value for the Company, seeking alignment with the shareholders' interests, with prudent risk management and with strict compliance with the legislation in force on directors' remuneration at listed companies.

Below is a description of the directors' remuneration, based on the principles and cornerstones explained above.

#### **4. Directors' remuneration system for their services as such**

The directors' remuneration for their services as such consists of a cash sum established according to their position and responsibility, and greater weight will be given to the duties of board Chairman and of President and members of board Committees, and per diems for effectively attending board and committee meetings

The maximum remuneration of directors for their position as such cannot, under any circumstances, exceed the upper limit approved each year by the shareholders' meeting, and the board may establish a lower amount.

For fiscal years 2015, 2016 and 2017, the upper limit on the remuneration payable overall to the directors for their position as such amounts to 1,500,000 euros. For fiscal year 2018, the upper limit on the remuneration payable overall to the directors for their position as such amounts to 2,000,000 euros.

As per diems, the directors will receive 2.000 euros for attending each meeting of the board, and 1.000 euros for attending committee meetings. Those per diems will be maintained on the same terms during the validity period of this policy.

The directors' remuneration for their services as such is paid in a 50 percent portion in cash and the remaining 50 percent by awarding shares in the Company, which shares are awarded towards the end of the fiscal year, net of personal income tax withholdings, which are borne by the directors.

The number of shares to be awarded as remuneration for their services as directors is calculated by reference to a figure calculated by dividing 50 percent of each director's remuneration by a reference share price that the board uses, and matches the volume weighted average price (VWAP) from the closing prices for DIA shares in the 15 trading days on the stock market before the date of the board meeting that prepares the financial statements.

- The directors (including the executive directors) must hold the shares they receive for this remuneration until they are removed from office as directors.
- The detail of the remuneration is broken down by year in the relevant ADRR.

## **5. Remuneration system for executive directors**

The components of the remuneration system for executive directors are:

### **5.1 Fixed remuneration**

- Its aim is to reward the performance of executive duties. For the Company's only executive director, his fixed annual remuneration has been set at 600,000 euros. For 2018, the fixed remuneration shall be the result of applying rules for review to such amount, based on the year-on-year positive variation in the CPI (Consumer Price Index, national general index published by the National Statistics Institute) for the period December 2016-December 2017.
- He will also receive certain additional items of remuneration in kind, including a life insurance policy with coverage for death by any cause and total permanent disability, a medical insurance policy and the use of a Company vehicle, pursuant to DIA's policy in this respect.

The fixed remuneration and remuneration reviews for the positions of executive directors and members of DIA's Management Committee are based principally on market factors determined having regard to pay surveys and specific ad hoc studies prepared by external advisors in remuneration policies. The fixed remuneration of the executive director has been established by the board of directors with the advisory of external consultants (Russel Reynolds) on the basis of the work actually performed and the high level of responsibility assumed by the executive director. In addition, the board considers that in the current conditions and barring extraordinary circumstances, this fixed remuneration is in keeping with the remuneration established at comparable companies in the industry both nationally and internationally, and adequately remunerates the knowledge of the

business, dedication and high level of commitment shown by the executive director as leader of the DIA Group organization.

## **5.2 Variable remuneration**

### **5.2.1 Annual variable remuneration**

Within the board, the variable remuneration only applies to the executive director as a percentage of his fixed remuneration. Variable remuneration is based on objective parameters aimed at assessing the director's contribution, in performing his executive duties, to the business targets of the Company and of the DIA Group.

The targets for the variable remuneration are:

- (i) quantitative, (targets relating to sales performance, globally or segmented; targets relating to the performance of indicators of the income statement, e.g. distribution costs, sales margins, EBITDA, EBIT, net income, etc.; targets relating to the performance of balance sheet indicators, e.g., working capital or its components, CAPEX, debt; quantitative targets which measure any of the foregoing variables against competitors (e.g., market share), with the weight of these targets over the total annual variable remuneration being 70%; and
- (ii) individual targets which, in turn, may include such quantitative targets as the board may consider a priority from time to time for the success of the business in the short term, and qualitative or relating to short- or long-term business development (such as, for example, consumer involvement, development and integration of new businesses and acquisitions, reinforcement of the internal organization, quality of stakeholder relations), the weight of each one of these being 30%.



In the executive director's case, the setting of the percentage that it represents of the fixed remuneration, the targets and the performance appraisal will lie with the board of directors, which will subsequently determine the degree of achievement of the business targets used as reference and the assessment of the individual targets.

The executive's annual variable remuneration may range between 0% and 200% of the annual fixed remuneration.

The annual variable remuneration system of directors, including the Chief Executive officer, was analyzed in 2011 by the NRC and reviewed annually since then, concluding that it is suitable to measure the contribution of the leadership team, including the executive directors, to the results of the DIA Group. Each year, the board establishes, at the NRC's proposal, the quantitative and qualitative targets of the variable remuneration system, evaluating their degree of achievement.

#### 5.2.2 Long term variable remuneration

The executive directors may take part in long-term incentive plans linked to strategic conditions and targets, and payable in cash or in shares, established by the Company for its senior executives. These plans shall recur over time, their successive approvals being proposed by the board of directors to the shareholders' meeting.

At the time of approval of this remuneration policy, the following long-term incentive plans were in force: (i) Incentive Plan 2011-2014 and (ii) Incentive Plan 2014-2016.

### 5.3 Welfare benefits

DIA will bear the cost of a life insurance policy for its executive director, with cover for death by any cause (with distinction between the cases of any cause, by accident and by traffic accident) and total permanent disability.

Additionally, the Company has included the executive director for the remuneration supplement called pension assistance, established by the Company for its executives, whereby, the Company pays a cash sum equal to two thirds of the upper limit on the individual contribution set by the legislation on individual pension plans, in force at December 31, 2014, with an obligation for the employee to support the contribution made by him to his pension plan.

As a result of the amendment to the law on pension plans in Spain which has reduced the limit on annual contributions, the board intends to analyze the option of using another procedure or vehicle to fund those payments, without giving rise to an increase in the amounts with respect to those currently contributed for the employees' benefit.

Except as far as the executive director is concerned, no pension, life insurance or other obligations have been entered into with the Company's directors.

#### **5.4 Principal terms and conditions of executive directors' contracts**

The main terms and conditions of the executive director's contract are as follows:

- Term: indefinite.
- Clawback clause, according to which the Company can claim from the Chief Executive Officer the repayment of the amounts received by him as annual and multiyear variable remuneration if, in the three years following its calculation and payment, the company becomes aware that the calculation and payment of that remuneration has been based in full or in part on information manifestly proven to be false or inaccurate afterwards, or that risks or other unexpected circumstances arise that have not been assumed or foreseen by the company which have a material adverse effect on the income statement of the company.

- Exclusivity: The Chief Executive Officer's contract includes a condition that he must fully and exclusively render his services to the company and may not render his services or perform professional activities, by means of any kind of contractual relationship, for other persons or entities without the company's express prior consent.
- Advance notice period: If the Chief Executive Officer decides to terminate his contract, he must send written notice to the company specifying this fact at least six months in advance.

For its part, the Company, in the event of unilateral withdrawal by the employer, must give six months' advance notice.

- Severance pay: The Chief Executive Officer's contract specifies that he is entitled to severance pay equal to two (2) annual payments of his remuneration if the Board of Directors decides to terminate the contract for reasons not based on his failure to fulfill his duties or due to a case of disciplinary dismissal declared to be justified.
- Permanence: the executive director's contract does not contain any permanence or loyalty clauses.
- Post-contractual non-competition: The Chief Executive Officer's contract includes a post-contractual non-competition clause obliging the Chief Executive Officer for a period of twelve (12) months: (i) not to provide services or perform activities that compete with those of the company or the DIA Group, and (ii) not to contract or try to contract or solicit, in his own benefit or that of third parties, employees, professionals, directors or members of the Company or of the DIA Group. The Chief Executive Officer would receive, as a consideration for those obligations, a compensation equal to one annual payment of the annual fixed remuneration that he is receiving at the time of termination of the contract.

In any case, the board of directors will periodically review the conditions of the Chief Executive Officer's contract and include any changes necessary, within the framework of the Company's remuneration policy and its internal regulations.

#### **5.5 Addition of new executive directors**

In principle, the remuneration system and the basic contractual terms and conditions described above will also be applicable to any new executive directors joining the board while this policy is in force, by reference, in particular, to the duties assigned to them, the responsibilities they take on and their professional experience. In this respect, an amount of fixed remuneration commensurate with those characteristics will be established by a board resolution, in line with the fixed remuneration of the current executive director and by reference to the competitive environment, and also, the variable remuneration system set out in this policy will be implemented.

#### **6. Implementation of the policy**

Subject to the provisions in the SCA on the directors' remuneration policy, DIA's board, following the relevant reports of the NRC, will adopt and review periodically the general principles of the directors' remuneration policy, and will be responsible for supervising its implementation. To that end, DIA's board will carry out an annual review of the principles and procedures contained in this document, to include, or where applicable, propose the required amendments, adaptations, implementation rules or governing principles.

**7. Term of the remuneration policy**

Subject to the provisions in the SCA on the directors' remuneration policy, the policies and procedures contained in this document will be valid in the year in which they are approved by the shareholders' meeting and in the following three years, except for any amendments, adaptations, updates or replacements that may be decided from time to time, which will be submitted to DIA's shareholders' meeting.